APB, SAR, and Nunn-McCurdy Status

DAMIR Conference

October 30-31, 2007

Larry Axtell &

Wendell Irby

OUSD(AT&L)

APB, SAR, and Nunn-McCurdy Status

Acquisition Program Baseline (APB) Status

Acquisition Program Baseline (APB)

Purpose

- Contract between the Program Manager (PM) and the Milestone Decision Authority (MDA) documenting program performance, schedule, and cost goals (objectives)
- Provides reference point for measuring program status
- Establishes the PM's trade space:
  - How is the system supposed to perform?
  - When are critical events to occur?
  - How much will it cost?
- Defines the deviation limits (thresholds) beyond which the PM may not exceed without authorization from the MDA

Acquisition Program Baseline (APB)

Background

- Defense Acquisition Improvement Act of 1986 implemented Packard Commission recommendation that DoD “fully institutionalize baselining to improve program stability.”
- Required by Title 10, United States Code, Section 2435
  (10 USC 2435) for Major Defense Acquisition Programs (MDAPs)
- DoD Instruction 5000.2 and the Defense Acquisition Guidebook, dated November 2004, provide policies and procedures for APBs and reporting APB breaches for all ACAT IC&ID and ACAT IAM&IAC programs

Acquisition Program Baseline (APB)

Statutory Requirements

- All MDAPs (ACAT IC/D programs) must have APBs
- No funds may be obligated after Milestone B for MDAPs without approved APB (unless waived by USD(AT&L))
- APB must be prepared before "system development and demonstration, production and deployment, and full rate production"
- SecDef must prescribe regulations governing:
  - Baseline contents
  - Submission of reports of baseline deviations
  - Procedures to review deviations
  - Procedures for submission of revised baselines
- For purposes of 10 USC 2433 (Nunn-McCurdy), there are Original and Current Baselines

Acquisition Program Baseline (APB)

Original Baseline

- First APB prepared just before a program enters SDD (Milestone B) or program initiation, whichever occurs later
- For programs designated as MDAPs after Milestone B or program initiation, the Original APB is the first APB approved as an MDAP
- Serves as the current baseline description until a revised APB is prepared at a major milestone, full rate production, or deviation (breach)
- The cost estimate parameter may be revised under 10 U.S.C. 2435 only if a breach occurs that exceeds a critical cost growth threshold for the program under 10 U.S.C. 2433

Acquisition Program Baseline (APB)

Current Baseline

- Shall be revised at major milestone decisions and at full rate production
- Revisions to cost or other APB parameters are not automatically authorized if there is a change to cost, schedule, or performance parameters
- May be revised only:
  - as a result of a major program restructure that is fully funded and approved by the MDA
  - as a result of a program deviation (breach), if the MDA determines that the breach is primarily beyond control of the PM
- Multiple revisions may not be authorized, and in no event will a revision be authorized if proposed merely to avoid a reportable breach
- MDA determines whether to revise the APB

Acquisition Program Baseline (APB)

Default Thresholds

- Performance: No default. *(However, if no threshold provided, threshold same as objective values and vice versa)*
- Schedule: 6 months after the objective date
- Cost: 10% above objective values (BY$)

Note: Non-default thresholds can be used if justified and approved by the MDA

Acquisition Program Baseline (APB)

Deviations (Breach)

- PM shall immediately notify the MDA of a deviation (beyond threshold) in any cost, schedule, or performance parameter (via Program Deviation Report (PDR)
- Within 30 days of occurrence of the deviation, the PM shall inform the MDA of the reason for the deviation and planned actions
- Within 90 days of occurrence of the deviation
  - A proposed revised APB shall be submitted for approval; or
  - An OIPT or equivalent Component-level review shall be held to review the program
- The MDA shall decide based on above criteria whether it is appropriate to approve a revision to an APB

Acquisition Program Baseline (APB)

Baseline Contents

- Cover Page (with “approval statement” and PM, PEO, CAE, and DAE signatures as appropriate)
- Performance Goals (Objectives and Thresholds): key performance parameters (KPPs)
- Schedule Goals (Objectives and Thresholds): major milestone decision points, IOC, and other critical events
- Cost Goals (Objectives and Thresholds): RDT&E, procurement, MILCON, acquisition-related O&M, program acquisition unit cost, average procurement unit cost, and other costs as determined by the MDA

Acquisition Program Baseline (APB)

Miscellaneous

- Revising Current APB at major milestone decisions/full rate production serves to update parameters based on knowledge developed during the current phase of the program (baselines evolve through the acquisition process)
- Periodic reporting on APB status is done through the DAES (quarterly) and the SAR (annual with quarterly exceptions)
- The base year used in the APB will change only at a major milestone decisions
- No breach thresholds for then-year dollars, total acquisition cost, total life cycle cost, or quantity

APB, SAR, and Nunn-McCurdy Status

Selected Acquisition Report (SAR) Status

Selected Acquisition Report (SAR)

Status

- Cost, schedule, and performance status on MDAPs required pursuant to 10 USC 2432
- On June 7, 2007, DoD submitted Section 803 report to Congress with recommended changes to SAR format and content:
  - Add percent change to Threshold Breach section
  - Revise Unit Cost Information section (PAUC and APUC table, delete unit cost report and unit cost history sections)
  - Delete contractor estimated price at completion, “planned” deliveries, and O&S cost element breakout
- Implementation of Section 803 changes planned for
  June 2008

Selected Acquisition Report (SAR)

Status

- December 2007 SAR will be generated using the DAMIR SAR Web Application (classified and unclassified versions)*
  - Current SAR Baselines (PEs/DEs/PdEs) must be broken out into year-by-year flyaway and support components (difficult task)
  - Current estimate from most recent SAR must be broken out into year-by-year flyaway and support components (some of this information already available)

* *APB Web Application will be implemented at the same time*

APB, SAR, and Nunn-McCurdy Status

Nunn-McCurdy Unit Cost Reporting Status

Nunn-McCurdy Unit Cost Reporting

Background/Purpose

- To provide Congressional unit cost reporting for Major Defense Acquisition Programs (MDAPs)
- Drafted by Senator Nunn in 1982 (Representative McCurdy co-sponsored)
- Title 10, United States Code, Section 2433 (Unit Cost Reports) and Section 2435 (Baseline Description)
- Largely unchanged until FY06 National Defense Authorization Act (NDAA) in January 2006

Nunn-McCurdy Unit Cost Reporting

Unit Cost Measurements

- Two UCR criteria:
  - -- Program Acquisition Unit Cost (PAUC)
  - -- Average Procurement Unit Cost (APUC)
- Definitions (in base-year $) :
  - -- PAUC = [Total Development $ + Procurement $ + Construction $] / Total program quantity
  - -- APUC = Total Procurement $ / Procurement quantity

Nunn-McCurdy Unit Cost Reporting

Unit Cost Tracking

- Compare ***Current Estimate*** to ***Current Baseline Estimate*** and to ***Original Baseline Estimate***
  - -- ***Current Estimate*** – Latest estimate of approved program
  - -- ***Current Baseline Estimate*** – currently approved Acquisition Program Baseline (APB)
  - -- ***Original Baseline Estimate*** – APB approved at Milestone B or program initiation, whichever occurs later

[Note: Original Baseline Estimate can be revised only after “Critical” Nunn-McCurdy breach]

Nunn-McCurdy Unit Cost Reporting

Unit Cost Tracking

- Internal – Quarterly unit cost reporting required from program manager to Service Acquisition Executive via DAES

- External – Breach reporting via SAR (see below)

	“Significant” Breach	“Critical” Breach
Current Baseline Estimate	+15%	+25%
Original Baseline Estimate	+30%	+50%

Nunn-McCurdy Unit Cost Reporting

Reporting Requirements

- For “Significant” breaches:
  - -- Service Secretary must notify Congress within 45 days after the report (normally program deviation report) upon which the determination is based
  - -- Submit a Selected Acquisition Report (SAR) with the required additional unit cost breach information

Nunn-McCurdy Unit Cost Reporting

Reporting Requirements

- For "Critical" breaches,
  - -- In addition to notification and SAR, the USD(AT&L) must certify to Congress within 60 days of SAR that:
    1. *the program is essential to the national security*
    2. *there is no alternative which will provide equal or greater capability at less cost*
    3. *the new estimates of the PAUC and APUC are reasonable*
    4. *the management structure is adequate to control PAUC and APUC*

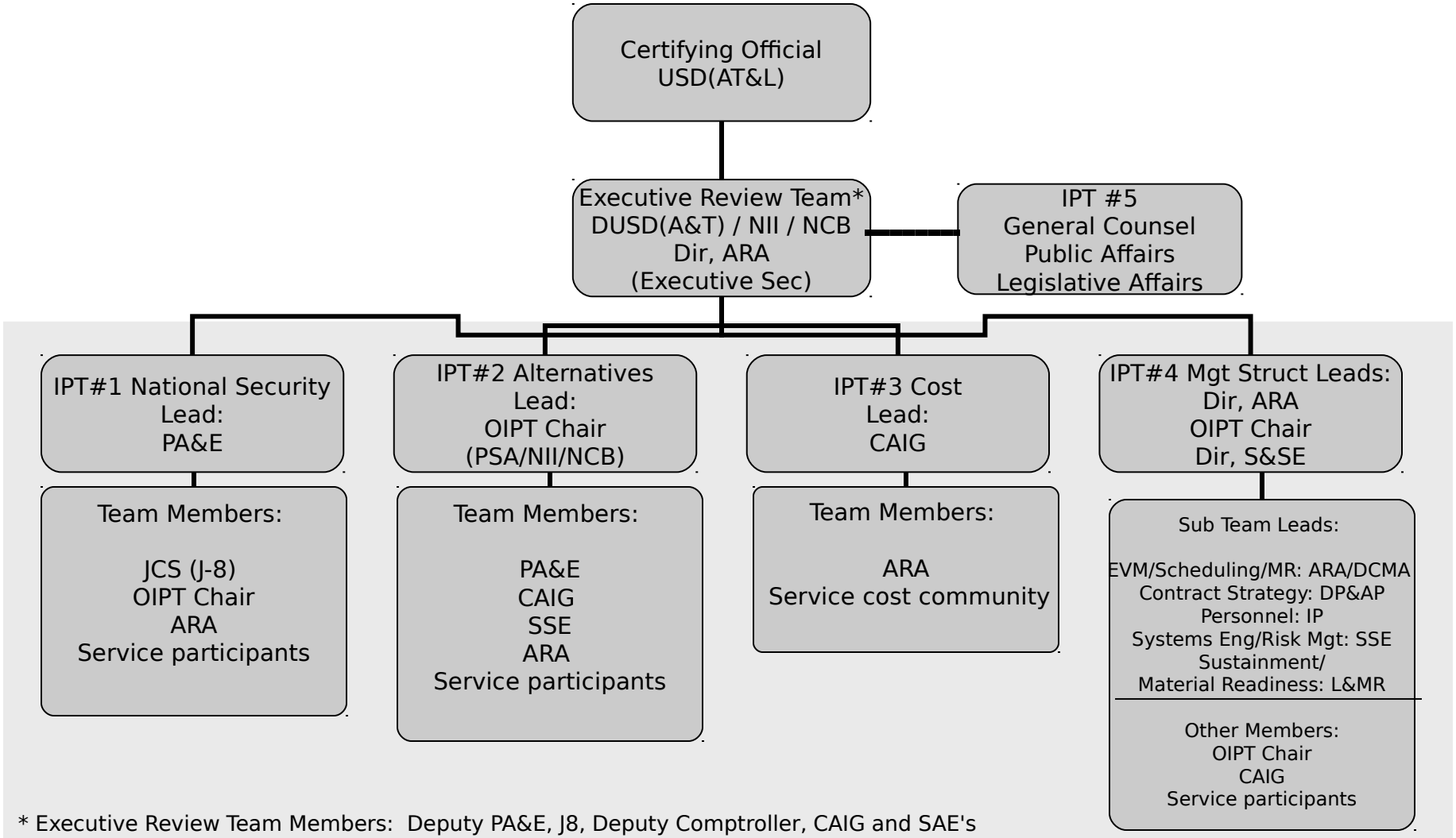
  (Note: No certification required for a terminated program)

Nunn-McCurdy Unit Cost Reporting

Certification Process

- USD(AT&L) establishes an IPT for each of the four certification criteria
- Periodic meetings held:
  - -- USD(AT&L)
  - -- Principals IPTs (i.e., Executive Review Team)
  - -- Joint Requirements Oversight Council (JROC)
- Site visits to contractor and PM locations
- Process outputs:
  - -- Certification package to Congress (Letters with supporting explanation)
  - -- Acquisition Decision Memorandum (ADM)

Nunn-McCurdy Unit Cost Reporting



* Executive Review Team Members: Deputy PA&E, J8, Deputy Comptroller, CAIG and SAE's

Nunn-McCurdy Unit Cost Reporting

Nominal Schedule

PM Submits PDR	October 2007-January 2008
Executive Review Team (ERT) Kick-off Meeting	January 2008
Service Secretary Notification to Hill	November 2007-Februar 2008
ERT Interim Meeting	February 2008
USD(AT&L) Initial Review	February 2008
Draft SAR to OSD	February 2008
Site Visits to Contractor/PM	February 2008
ERT Interim Meeting	March 2008
USD(AT&L) IPR	March 2008
Final SAR to Congress	April 4, 2008
ERT Interim Meeting	April 2008
USD(AT&L) IPR	April 2008
ERT Final Meeting	May 2008
USD(AT&L) Final Review	May 2008
Draft Certification and ADMs for Coordination	May 2008
USD(AT&L) Certification to Congress	June 3, 2008

Nunn-McCurdy Unit Cost Reporting

Penalties

- Suspension of Obligations
  - -- If either SAR or certification are not submitted on time, obligational authority suspended on all major contracts
  - -- Suspension shall cease to apply after 30 days of continuous session of Congress (starting from the date of receipt of SAR/certification)

Nunn-McCurdy Unit Cost Reporting

Anatomy of a Breach

- Breaches can occur only to the Current APB or only to the Original APB, but most occur to both
- Normally, there are several contributing factors that cause programs to breach:
  - -- Significant reduction in quantity
  - -- Change in requirements since baseline
  - -- Development or production stretchouts
  - -- Technical or performance/reliability issues
  - -- Inadequate estimate at baseline
- Most (not all) programs with “Critical” breaches are certified by the USD(AT&L), but the certified program represents a restructuring of the “program of record”

Nunn-McCurdy Unit Cost Reporting

Current Baseline Status

Service	≥ 10% < 15% (Near Breach)	≥ 15% and < 25% ("Significant")	≥ 25% ("Critical")
Army	FMTV (>25% ??)	ARH (+20%)	
Navy	MH-60S (+??%)		VH-71 (Determination imminent)
Air Force	B-2 RMP (>25% ??) MPS (>25% ??)	JASSM (+20%)	C-5 RERP (+50%) NPOESS (certified Jun 06)
DoD	JTRS GMR (>25% ??)		

Nunn-McCurdy Unit Cost Reporting

Original Baseline Status

Service	≥ 20% < 30% (Near Breach)	≥ 30% and < 50% ("Significant")	≥ 50% ("Critical")
Army	PAC-3 (+24%) STRYKER (+29%)	Previously Reported: ATIRCM/CMWS (+49%) CHEM DEMIL CMA (+34%) CMA NEWPORT (+42%) FBCB2 (+38%)	
Navy	E-2C REPRO (+20%)	Previously Reported: F/A-18 (+33%) MH-60S (+47%) VA CLASS (+42%)	
Air Force	C-130J (+27%)		C-5 RERP (+70%) JASSM (certification pending since Jun 07) NPOESS (certified Jun 06)
		Previously Reported: JSF (+38%)	

Nunn-McCurdy Unit Cost Reporting

Issues Going Forward

- As a result of FY06 NDAA, DoD will report more “Significant” and “Critical” Nunn-McCurdy breaches
  - -- Streamline/tailor certification process?
  - -- Take “Significant” breaches more seriously
- To mitigate increased number of breaches, early warning needed:
  - -- Increased awareness by Services during budget build
  - -- Monthly DAES reviews (Total program EVM, DCMA “tripwires”)
  - -- Work closely with CAIG & Service cost community